



Virg Bernero, Mayor

# City of Lansing, Michigan

## Citizens' Guide to City Finances

This user guide provides an overview of the City's finances and financial position. The guide is divided into four (4) sections:

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**Information in this guide contains the most currently-available information and data. The Guide is updated as new data becomes available.**

**Additional information on the City's finances are available in the following resources on the City's website, [www.lansingmi.gov](http://www.lansingmi.gov):**

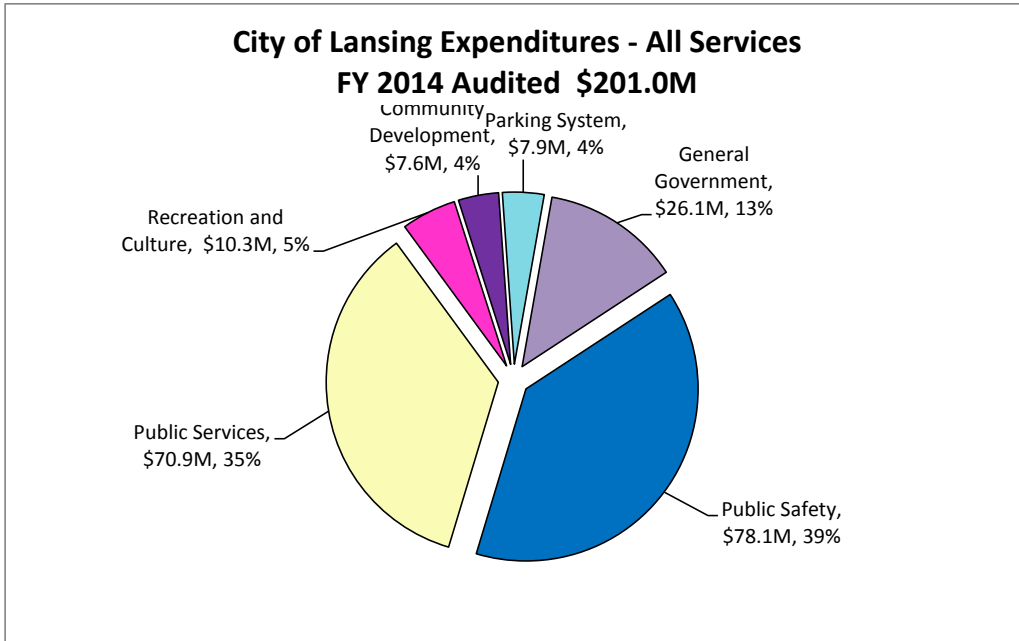
- Financial statements - Comprehensive Annual Financial Report (CAFR) - provides a financial information as of the June 30 each year
- Budget Documents - provides the City's financial and service-level plan for each of the City's fiscal years.
- Citizen Dashboard - provides service-level performance indicators

If you have questions about this guide or need additional financial information, contact the Finance Department at (517) 483-4500.

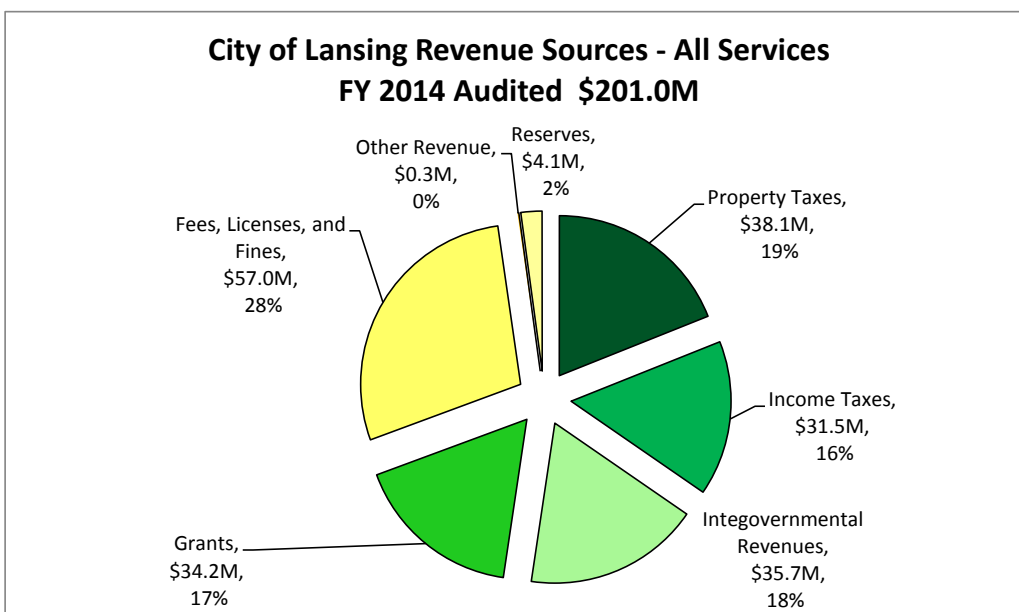
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# YOUR GOVERNMENT AT WORK

The City provides a broad array of services, including police and fire protection; sanitary sewers, storm sewers; over 400 miles of roads; 115 parks; a parking system; a District Court; community and neighborhood development; recreational opportunities; and support for human services and cultural events. Of all services, by far the most resources are spent on police and fire protection (public safety).

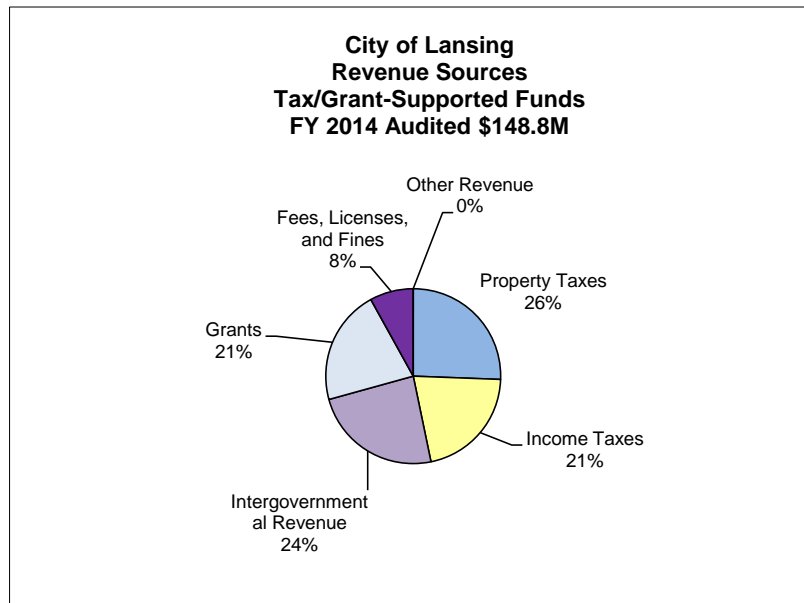


The three largest revenues sources for the City, in total, are taxes (35%), user fees/licenses/finest (28%), and Intergovernmental revenues and grants (35%). While fees make up a significant portion of total revenues, the majority are attributable to the City's sanitary sewer and parking systems, which fund those respective operations.

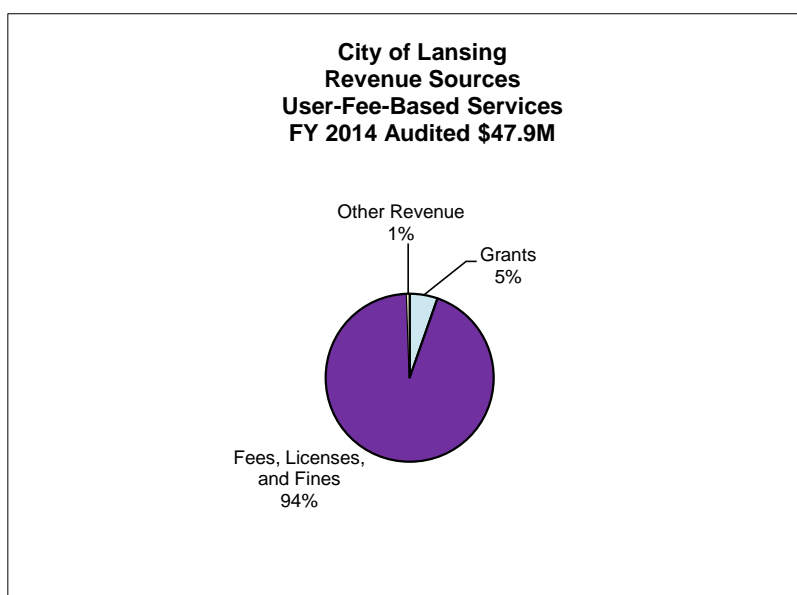


Funding for City services is characterized in two categories:

- General governmental services are supported by tax revenues and grants, with some funding coming from user-based fees. General governmental services include police and fire protection, community development, parks and recreational programs, general government operations such as finance and human resources, and road maintenance.



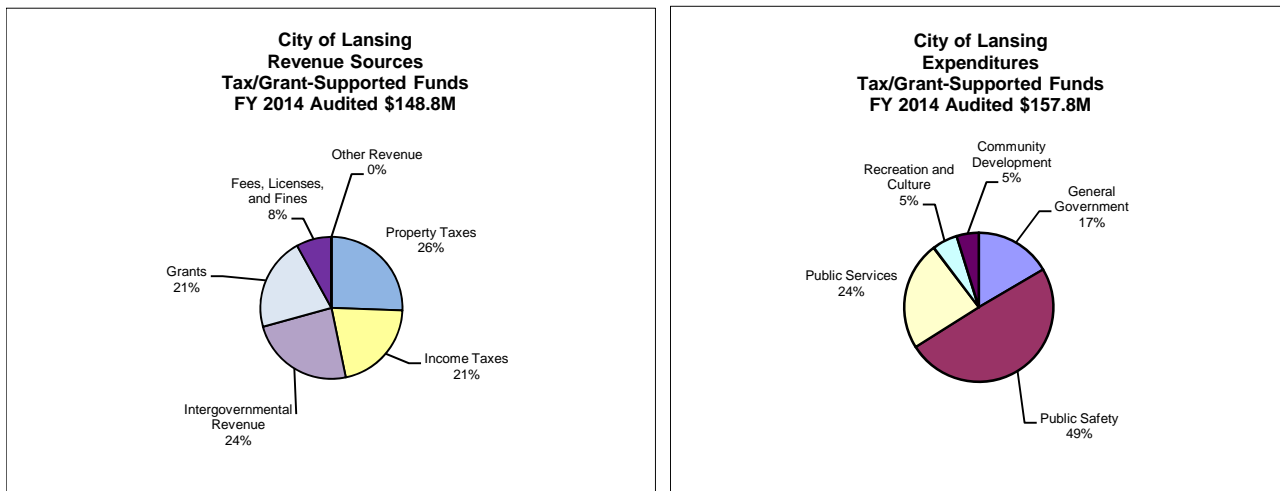
- User fee-based services are funded mainly through user fees and usage rates. The City's sanitary sewer system, parking system, golf operations, and refuse and recycling programs fall into this category.



# SECTION 1:

## General governmental services

(City services supported mainly by tax revenues and grants)



General governmental services includes police and fire protection, parks and recreational activities, community and neighborhood development, storm sewer, sidewalk, and road maintenance and construction, and general government operations such as finance, human resources, and the Mayor's, City Council, City Clerk and City Attorney's offices.

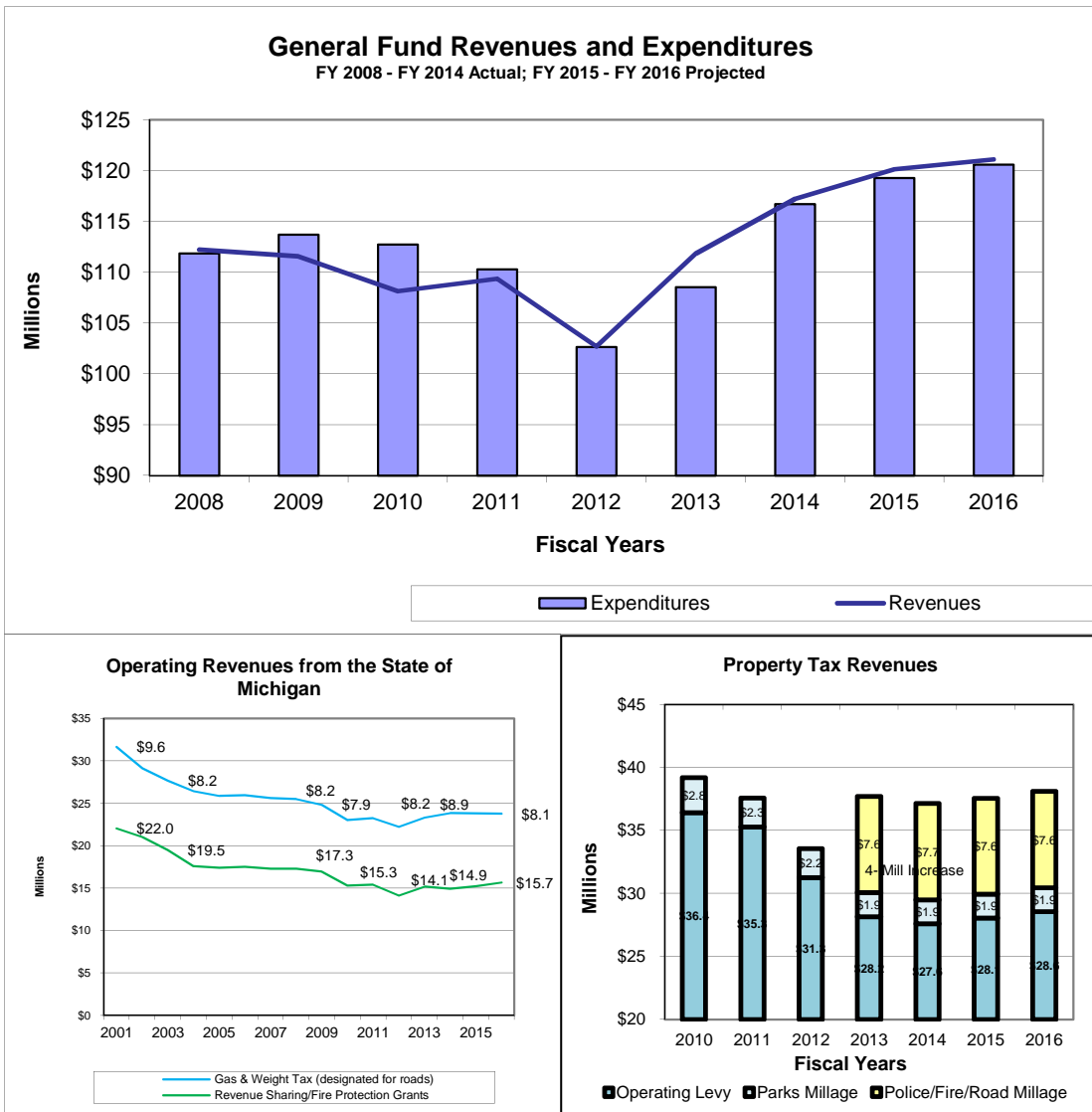
As shown in the graph above, the main sources of funding for these services are property taxes, income taxes, State revenue sharing, and grants.

These services are classified in the City's financial statements as "governmental activities" and "governmental funds."

Information on the following pages is summarized to provide a concise view. More detailed information on each of these funds is available in the "Governmental" Funds section of the City's Comprehensive Annual Financial Report (CAFR) and annual Budget Documents.

## Revenue Trends - General Governmental Services

Over the past several years, the City has seen a steady and significant decline in revenues from the State of Michigan. Revenues from the State support general operations (revenue sharing), the Fire Department (Fire Protection/Bad Driver Fees), and Roads (Gas & Weight Tax). These reductions, combined with the effects of declining property tax revenues in the Great Recession, fluctuating income tax revenues, and escalating healthcare and pension costs, have resulted in significant fiscal challenges for the City and other municipalities. Because of these challenges, voters approved a 4 mill property tax increase, starting in FY 2013, for police and fire protection and road maintenance funding. As depicted in the Property Tax Revenue chart, as of FY 2016, property tax revenues without the millage increase remain well below FY 2010 levels. The increase in total General Fund revenues in FY 2014 resulted from an increase in return on equity payments from the Lansing Board of Water and Light.



## **Service-Level Changes/Revenue Enhancements Enacted In Response to Declining Revenues**

In response to the challenges presented by declining General Fund revenues and increasing costs of pension and healthcare, Mayor Bernero has, since coming into office in 2006, proposed and implemented many different changes in City programs, staffing, and organization, including:

- Reducing the City's workforce by 368 (30%) since FY 2006, from 1,220 to 849
- Reducing hours of work for all non-emergency personnel (reinstated FY 2014)
- Reducing city health insurance costs by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing city health insurance costs for Medicare-eligible retirees
  
- Reducing minimum staffing requirements for firefighters, resulting overtime costs
- Reducing police overtime by reorganizing work schedules
- Closing 3 fire stations and eliminating associated costs
  
- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
  
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
  
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Increasing income tax compliance efforts (over \$3M in additional uncollected revenue since February, 2007)
- Implementing energy efficiency measures in city buildings
- Implementing new restrictions on overtime, travel and hiring
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

During this time, the City has maintained its focus on preserving and improving its economic base. The Mayor's economic team has worked tirelessly to retain and expand jobs, bringing income tax and property tax revenue into the City.

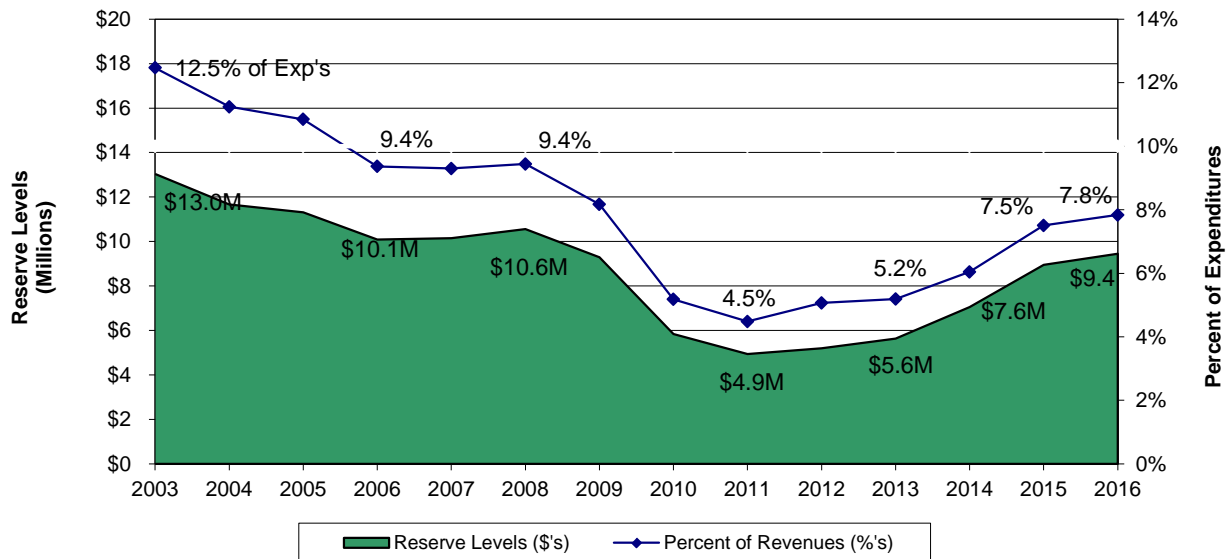
## General Fund Reserves

The City's General Fund is used for activities mainly supported by tax revenue and State-shared revenues. (Grant are reported in separate funds in order to demonstrate legal compliance with grant requirements.)

"Reserves", also known as "fund balance", "budget stabilization fund", and "rainy-day funds", is the amount by which assets exceed liabilities. It can be thought of as a savings account -- it exists in case of extraordinary emergency financial situations and to sometimes save up for major purchases.

**Since FY 2007, General Fund budgets have been adopted without reliance on the use of reserves.** Unfortunately, the severity of the economic downturn that started December, 2008 resulted in larger-than-anticipated losses of revenue. Expenditures have been managed to lessen the impact on reserves (see page 5), but have not been enough to match the loss of revenue. Where the City's desire is to maintain General Fund reserve levels of 10% - 15% of revenues, reserve levels were 4.5% at the end of FY 2011. Building back up those reserves, to provide insulation in the event of another economic downturn or emergency, is a priority for the City, and progress is being made.

## General Fund Reserves





## **SECTION 2:**

### **User Fee-based services those municipal services funded mainly through user fees and usage rates**

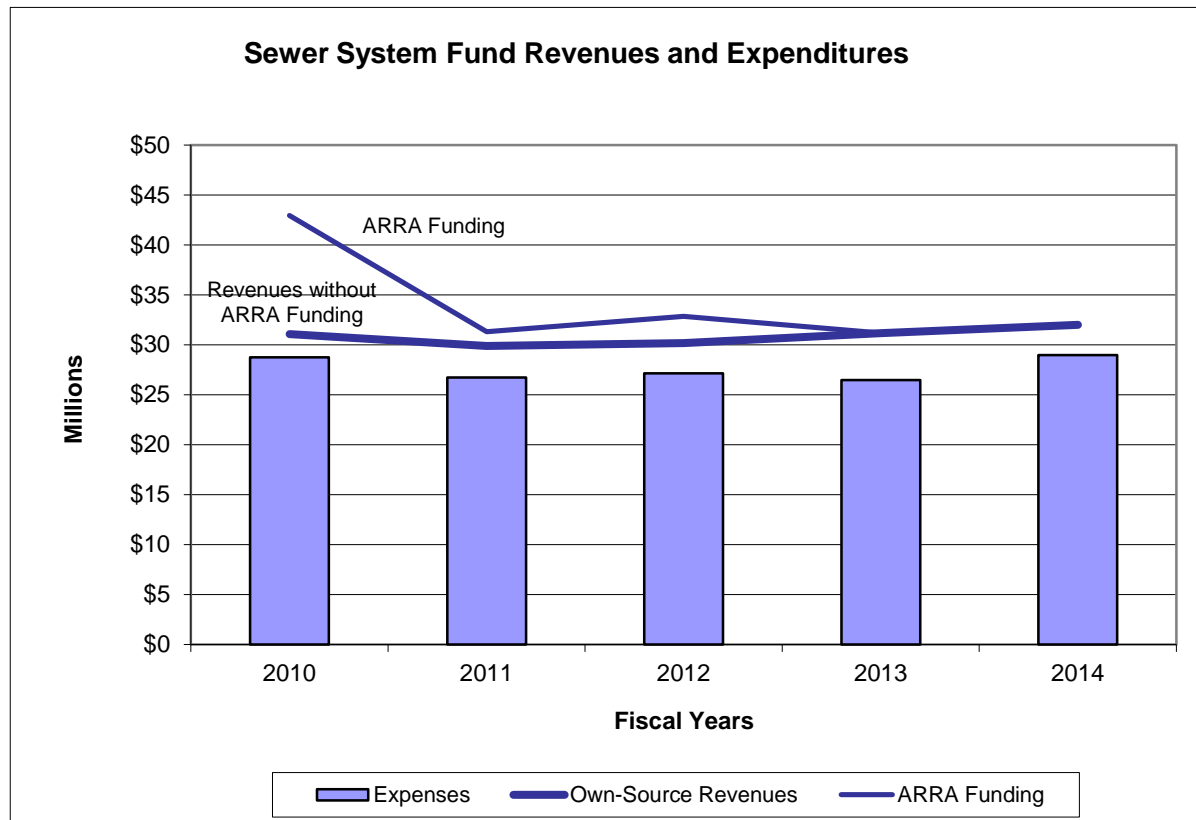
Services included in this section include the City's:

- Sanitary Sewer System
- Parking System
- Refuse (Garage Collection) Operations
- Recycling Operations
- Golf Course Operations
- Cemetery Operations

These services are reported in the City's financial statements in the category of funds known as "enterprise" and "proprietary" funds.

Information on the following pages is summarized to provide a concise view. More detailed information on each of these funds is available in Proprietary Fund section of the City's Comprehensive Annual Financial Report (CAFR) and annual Budget Documents.

## Sanitary Sewer System

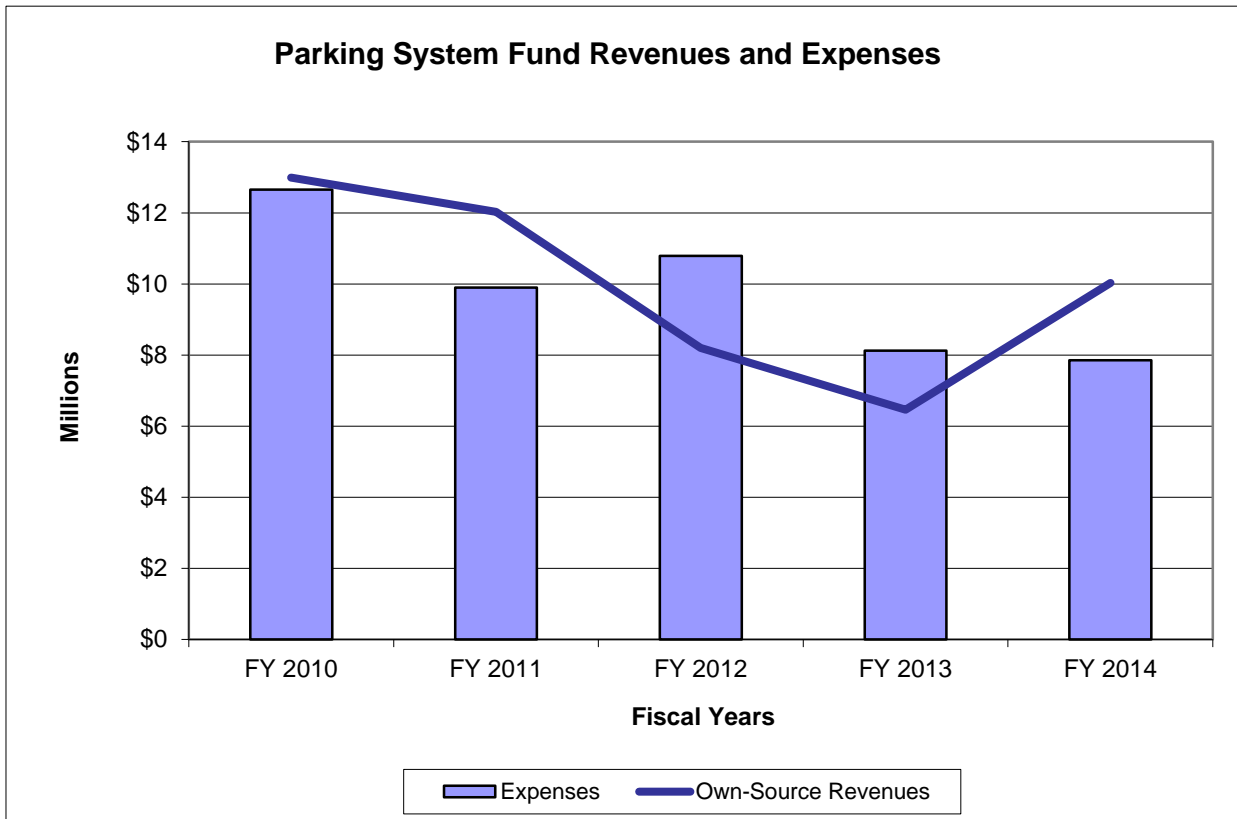


The City's sanitary sewer system invests heavily in infrastructure. Rates are structured to fund not only day-to-day operations, but to also fund capital maintenance and construction needed to operate the systems in the long-term. In some years, revenues exceed expenses and are "saved" for infrastructure needs. In years where heavy infrastructure maintenance and/or construction occurs, expenditures exceed revenues, and the amounts "saved up" are spent.

The City is required by federal and state mandates to separate sanitary sewer from storm sewers, in order to lessen the amount of sewage that flows into the Grand River during major storm events. This program, known as the Combined Sewer Operations (CSO) has resulted increasingly-large debt repayments (see page 16), requiring annual sewer rate increases.

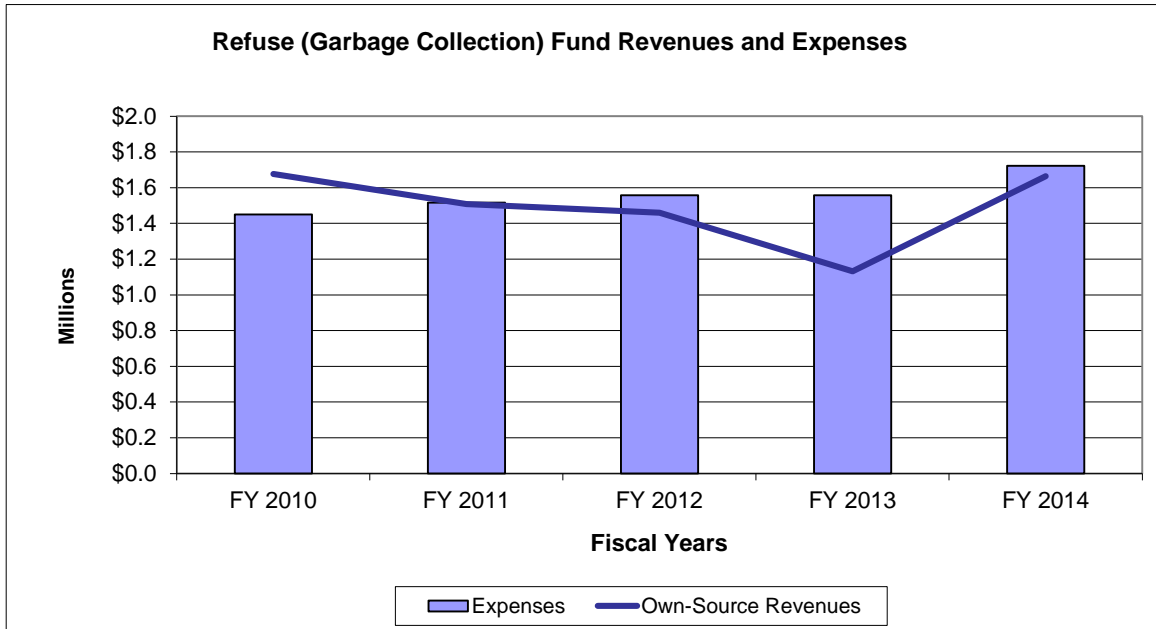
In FY 2010 through FY 2012, the sanitary sewer system received \$16 million in federal stimulus from the American Recovery and Reinvestment Act (ARRA). This resulted in an influx of cash; however, that amount will be needed to repay debt for the federally-discounted loans.

## Parking System



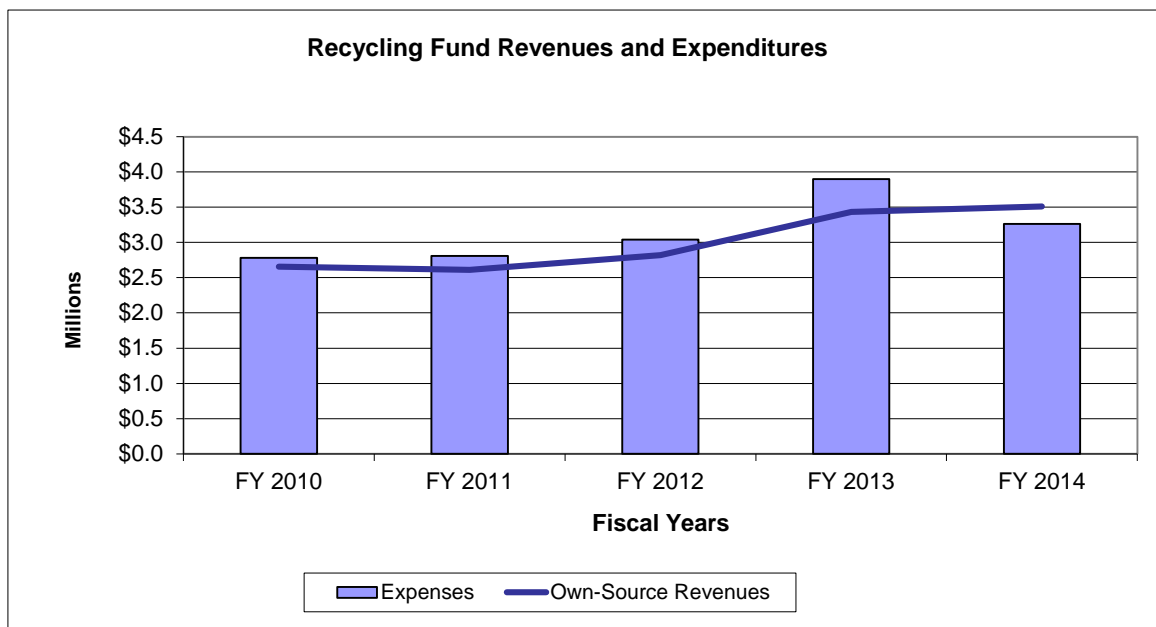
The City's parking system invests heavily in infrastructure, as the system supports various parking lots and four parking ramps. Rates are structured to fund not only day-to-day operations, but to also fund capital maintenance and construction needed to operate the system in the long-term, including structural repairs to parking ramps and ramp replacement. In some years, revenues exceed expenses and are "saved" for infrastructure needs. In years where heavy infrastructure maintenance and/or construction occurs, which was the case for fiscal years 2012 and 2013, expenditures exceed revenues, and the amounts "saved up" are spent.

## Garbage Collection and Recycling Systems

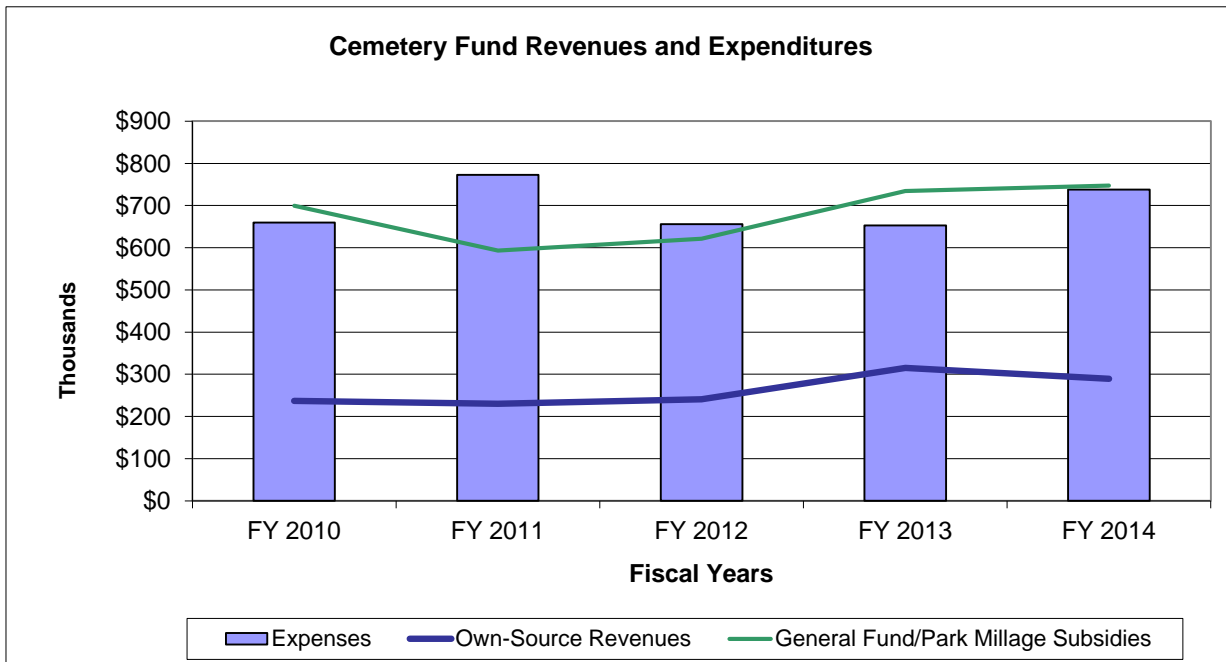


The City provides garbage collection services. The program is funded by fees based on the size of garbage container used. The City's residential recycling system, which converted this past year to single-stream, is funded by a recycling fee charged to residents. These programs are designed to encourage recycling and the reduction of waste being hauled to landfills.

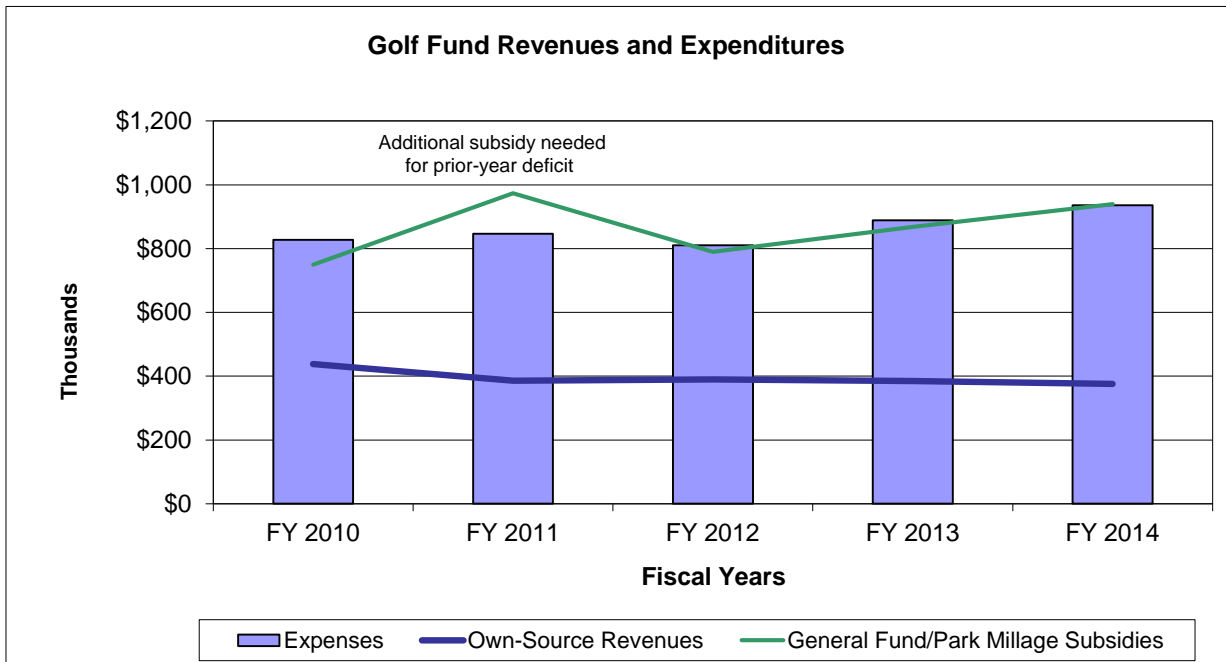
While not as capital-intensive as the sewer and parking systems, garbage collection rates and the recycling fee are designed to fund day-to-day operations as well as capital replacement for vehicles and equipment. As a result, revenues will exceed revenues in some years to build up funding for capital, and expenditures will exceed revenues in years where such capital is purchased. The 2013 increase was due to the introduction of single-stream recycling, which was funded by a recycling fee increase, designed to reimburse implementation costs over the next several years.



## Cemetery and Golf Operations

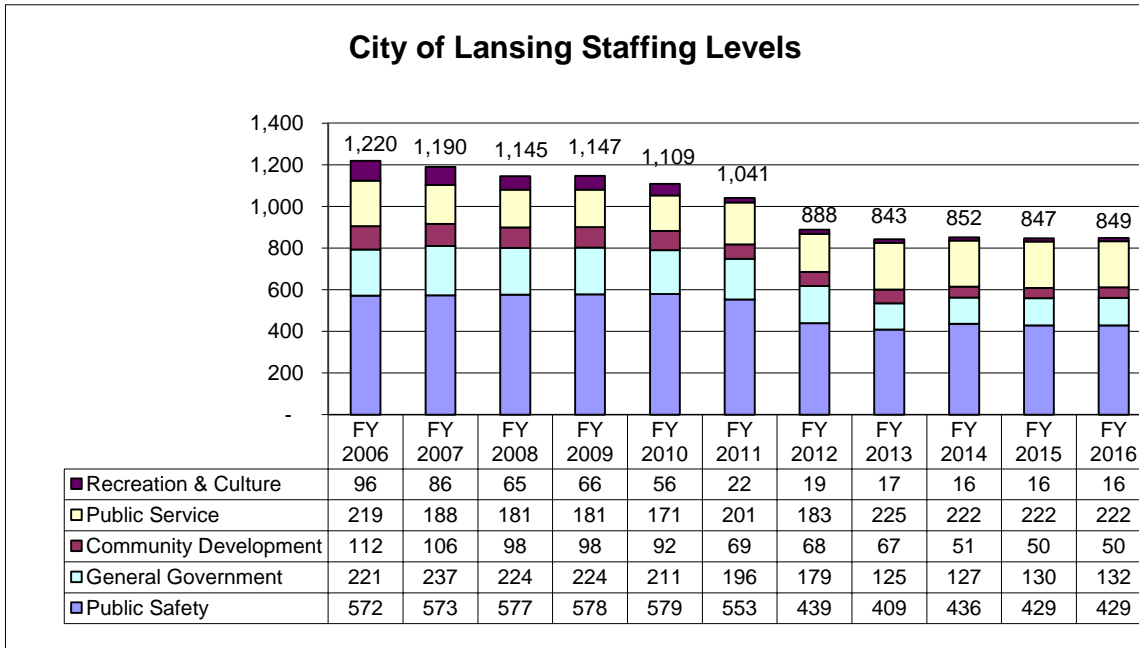


The City operates three (3) cemeteries, one 18-hole golf course, and a driving range. Cemetery and golf operations have both required heavy subsidies from the City's General Fund and Parks Millage Fund in recent years. To reduce these tax dollar subsidies, various measures have been adopted to reduce costs, including the closure of two formerly-City-operated golf courses, and partnership with the First Tee organization for the operation of the City's driving range and the Lansing Entertainment and Public Facilities Authority for concessions and marketing for golf.



### SECTION 3: STAFFING

The following graph is for total City staffing. Staffing has decreased 30% from FY 2006 levels, as the City has been faced with declining revenues and inflationary pressures from healthcare and pension costs.



**Notes:**

**Recreation & Culture** - 18 positions transferred to Ingham County with Zoo in FY 2008 with the passage of a County-wide zoo millage; 31 positions transferred from Recreation & Culture to Public Service in 2011 as part of a consolidation of grounds maintenance functions.

**Public Service** - 31 positions transferred from Recreation & Culture to Public Service in FY 2011 as part of a consolidation of grounds maintenance functions. Forty-five (45) positions transferred from General Government to Public Service for Property Management and Fleet Maintenance operations in FY 2013.

**Community Development** - Nine (9) positions were transferred to Public Service in FY 2011 for consolidation of grounds maintenance and transportation operations. Sixteen (16) positions were transferred from Community Development to Public Safety for parking enforcement and code compliance activities in FY 2014.

**General Government** - Forty-five (45) positions transferred from General Government to Public Service for Property Management and Fleet Maintenance operations in FY 2013.

**Public Safety** - The reduction in Public Safety staffing in FY 2013 is due to the transfer of 53 positions to the 9-1-1 Dispatch Center to Ingham County. Police and Fire staffing for FY 2013 increased by 11 officers and one Crime Analyst due to grants. Nine (9) additional police officers and one fire inspection position were added in FY 2013. The change in positions in FY 2014 are due to the transfer of parking enforcement and code compliance positions, as well as the hiring of eight (8) additional firefighters due to a grant. Eight (8) grant-funded firefighter positions ended in FY 2014.

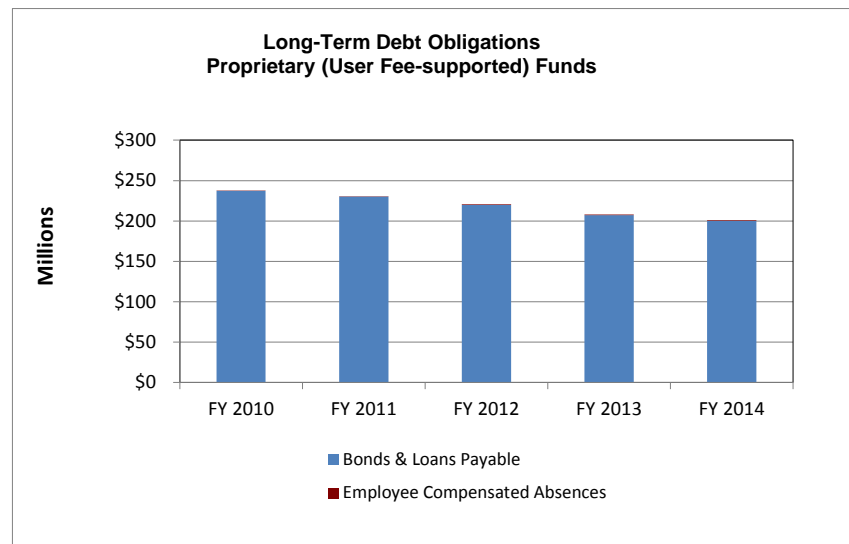
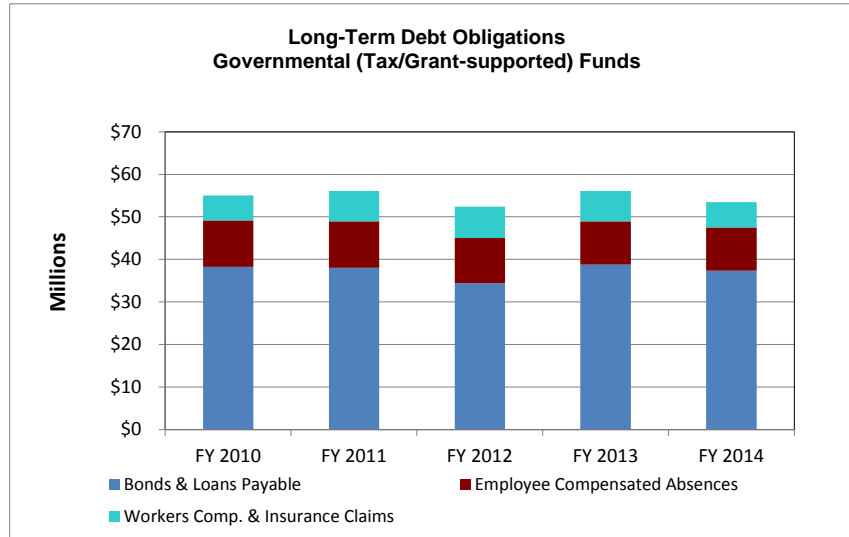
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Number of employees per 1,000 residents	9.6	9.3	9.1	7.8	7.4	7.5	7.4	7.4

## **SECTION 4:**

### **Long-Term Obligations**

The City has obligations which are funded by both current and future year revenues. These obligations include debt issued to fund capital projects (which benefit not only the current year but future years), and funding for its pension and healthcare benefits for retirees.

## Long-Term Debt Obligations



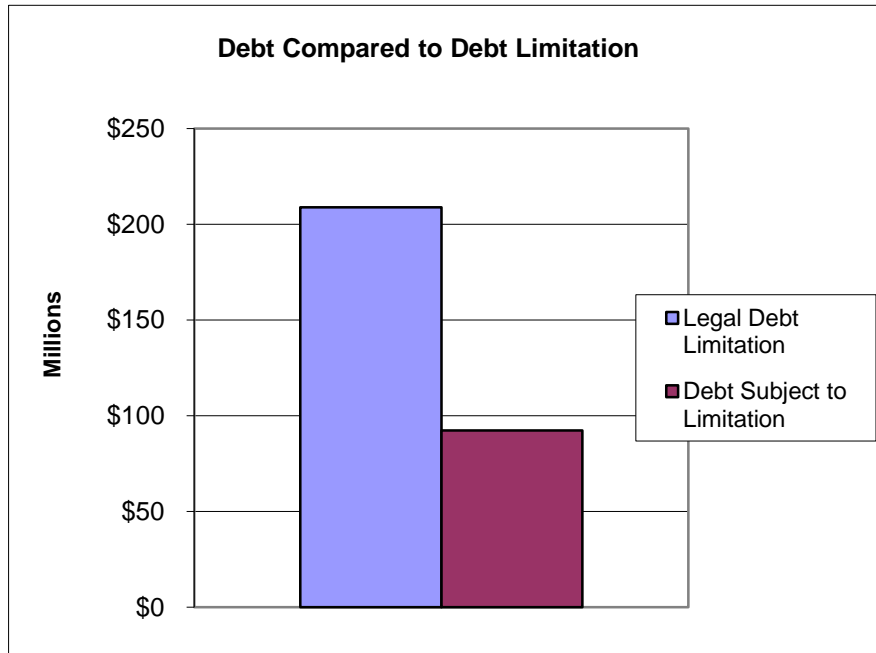
The City issues debt, in the form of long-term bonds and loans, to finance certain capital projects. The City does *not* issue debt to finance day-to-day operations. Debt is repaid with annual revenues. The City's EPA-mandated sewer separation project requires a heavy reliance on debt issuances, financed by sewer rate increases, as noted in the second chart.

Additionally, certain amounts, such as accumulated employee leave time and insurance claims, are recorded as long-term obligations of the City. These are also paid with annual revenues as they come due. Employee compensated absences (sick, vacation leave balances) are higher in the governmental (tax-supported) funds, because a larger number of employees work in the governmental services, compared to the proprietary (user fee-supported) services.

The increase in governmental (tax-supported) bonds and loans payable in FY 2013 is largely due to a \$5.9M loan, the amount for which is reimbursed to the City from outside sources, but which must be shown as outstanding debt of the City.



## Long-Term Debt Obligations



The capacity for the City to issue certain types of bonds and loans is governed by the City's debt limitation, which is based on assessed property value and the ability to generate property taxes. Certain bond issuances, most notably those supported by user-fee based revenues, are not subject to the City's debt limitation. As indicated by the above chart, the City is well within its legal debt limitation.

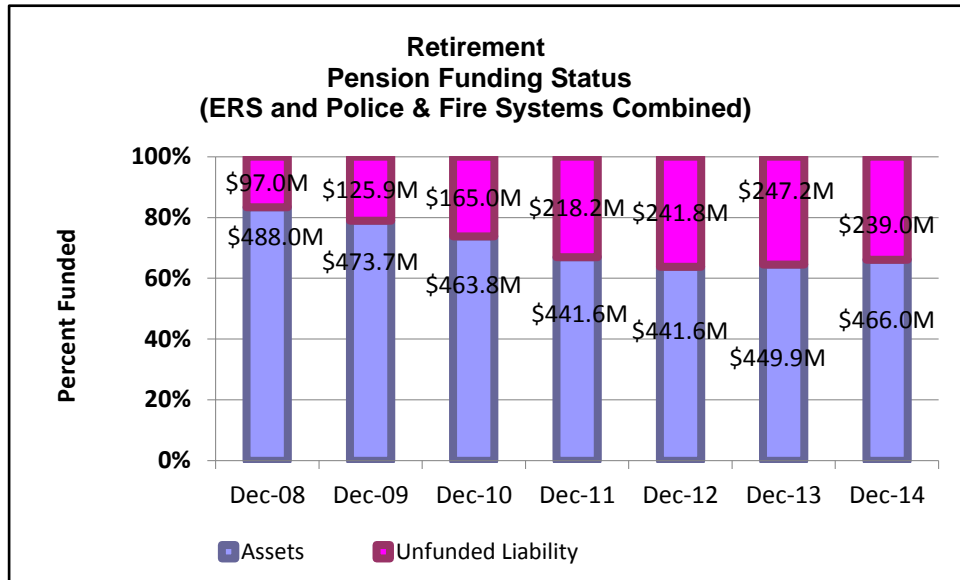
### Moody's Bond Rating Scale

Aaa	Highest Rating
<b>Aa</b>	Lansing Revenue-Backed Debt= Aa3
<b>A</b>	Lansing Tax-Backed Debt = A2
Baa	
Ba	
B	
Caa	
Ca	
C	Lowest Rating

### S&P Bond Rating Scale

AAA	Highest Rating
<b>AA</b>	Lansing Tax-Backed Debt = AA- Lansing Revenue-Backed Debt = AA-
A	
BBB	
BB	
B	
CCC	
CC	
C or D	Lowest Rating

## Long-Term Pension Obligations

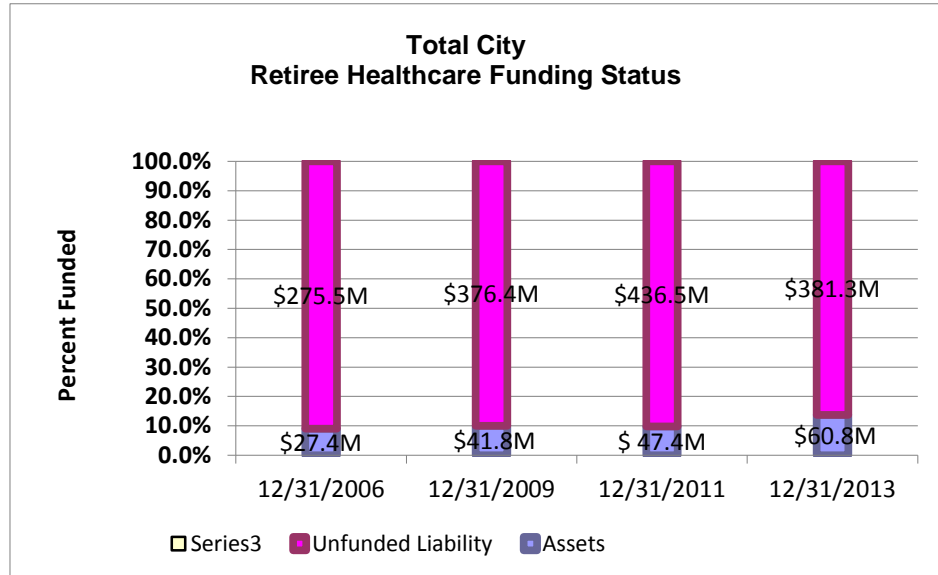


The City has defined benefit (pension) plans for its current retirees and employees. The City has been funding the resulting actuarially-determined long-term liabilities, and their current funding status is shown above. The stock market crash in December, 2008 (which is smoothed into actuarial results over a five-year period) adversely impacted the funding status of the systems. To the extent the systems have unfunded actuarial liabilities, annual contributions to the pension systems are required. The City has consistently contributed the full contribution amounts.

Actuarial valuations are performed annually, on a calendar-year basis, for the City's pension systems.

More detailed information is available from the City's actuarial reports of its Employee's Retirement System (ERS), Police and Fire Retirement System, and its Other Post-Employment Benefits System, as well as the City's Comprehensive Annual Financial Report.

## Long-Term Retiree Healthcare Obligations



The City has defined benefit retiree healthcare plans for its current retirees and employees. While municipalities have been setting aside funding and receiving actuarial valuations for pension systems for decades, they have only been required to do so for retiree healthcare since an accounting requirement change in FY 2009. The City has been setting aside monies for prefunding of retiree healthcare since 1993, several years longer than most municipalities. The City has been funding the resulting actuarially-determined long-term liabilities, and their current funding status is shown above. The stock market crash in December, 2008 adversely impacted the funding status of the systems. The funding level as of 12/31/13 was 13.8%. Because prefunding for retiree healthcare has begun very recently, benefits for current retirees are funded on a pay-as-you-go basis out of current-year revenues.

Actuarial valuations are performed biannually for the City's retiree healthcare systems.

More detailed information is available from the City's actuarial reports of its Employee's Retirement System (ERS), Police and Fire Retirement System, and its Other Post-Employment Benefits System, as well as the City's Comprehensive Annual Financial Report.